BRITISH COLUMBIA

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Issue: 99-22 6 Pages
June 4, 1999

highlights

a weekly digest of recently released British Columbia statistics

Labour Force

- **The province's unemployment rate dropped to 8.4% (seasonally adjusted) in May, a decline of 0.4 percentage points.** The decrease in the unemployment rate was not all good news, however, as it was the result of a shrinking labour force (-1.3%) rather than an improvement in the employment situation. There were 27,100 fewer people in the labour force last month than in April. At the same time, the number of people with jobs fell 0.9% to 1.89 million.

  Canada's jobless rate also declined (-0.2 points, to 8.1%), and for the same reason. Employment was down 0.1%, but the labour force contracted more, decreasing 0.3% as 48,900 Canadians stopped working or looking for work. Lower unemployment rates in PEI, New Brunswick and Quebec were attributable to the same factors. Ontario (-0.2 points, to 7.0%), Manitoba (-0.2 points, to 5.4%) and Newfoundland (-1.5 points, to 17.0%) were the only provinces where employment gains occurred simultaneously with an expanding labour force. *Source: Statistics Canada*

- **Cariboo (14.1%, 3-month moving average) and Thompson/Okanagan (10.6%) continue to be the regions with the highest jobless rates.** The labour market in Northeast, which was enjoying an energy-based boom, has taken a definite turn for the worse. The region's unemployment rate has almost tripled during the last twelve months. In May of 1998, it was among the lowest in the country, at 3.2%. By last month, it has risen to 9.1%, with most of the increase occurring during the last five months. Residents of Mainland/Southwest (8.2%) and Vancouver Island/Coast (8.3%) enjoy the lowest unemployment rates in BC. *Source: Statistics Canada*

- **It appears that a growing number of self-employed British Columbians are in a position to pay for hired help.** The number of self-employed workers with paid help, which had declined throughout most of 1998, has been trending up since the beginning of this year, and in May was 10.8% higher than a year ago. In contrast, growth in the number of self-employed people who have no paid employees has slowed significantly, increasing only 1.9% last month *Source: Statistics Canada*

The Economy

- **Department stores sales in British Columbia and the three territories (Nunavut is now included with Yukon and NWT) fell for the second straight month in April, dropping to 1.6% below the April 1998 level.** Sales were also down in Atlantic Canada (-6.1%), but increased in the rest of the country. Alberta (+0.5%) posted the smallest gain, while stores in Manitoba (+2.4%) outperformed those in the rest of the country. Canadian sales were up 0.5%. *Source: Statistics Canada*

Port Activity

- **The Port of Vancouver maintained its status as Canada's busiest port facility in 1998, handling 70.7 million tonnes of cargo, about a fifth of the national total (375.2 million tonnes).** This was 1.5% less than in the previous year, when cargo tonnage reached a record 71.8 million tonnes. Vancouver may actually have benefitted from the Asian crisis, as low Asian exchange rates boosted the demand for Asian imports to North America. Inbound shipments from foreign ports increased 10.4% last year. However, outbound international tonnage dropped 3.2% to 63.1 million tonnes. This was

Report **BC losing ground in US lumber market**

Did you know...
BC is the second-largest producer of mineral fuels in Canada. Alberta produces the lion's share (78.0% of the Canadian total). BC (9.3%) and Saskatchewan (8.8%) are the only other significant producers in the country.

mainly due to lower wheat and potash shipments.

Sept-Iles/Pointe Noire (24.6 million tonnes) and Montreal/Contrecoeur (21.0 million tonnes) were the second and third busiest ports in the country.

Source: SC, The Daily

- **Although Asian flu seems to have had little dampening effect on most Canadian ports, Prince Rupert was hard hit by the economic slowdown in Asia.** Freight tonnage handled at the port decreased by a third (-32.3%), falling to 8.5 million tonnes in the wake of substantial declines in shipments of coal and wheat to markets in the Far East. Coal exports through the port were down 27.8%, while wheat shipments fell 34.4%. The decline knocked Prince Rupert off the "top ten" list. It slipped from being the 10th busiest to the 13th most active port in the country.

  Source: SC, The Daily

- **A record 7.2 million tonnes of the freight handled at Vancouver last year was in containers.** This represented a 20.9% increase from the previous year. Vancouver (36%), Montreal (42%) and Halifax (18%) handle almost all of the containerized freight coming into or leaving the country. Cargo transported in containers tends to be more valuable than bulk cargo. In addition, containers are often in-transit between the US and other countries. In-transit shipments represent an export of transportation services, which boosts Canada's shipping, railroad and trucking industries, and provides an important source of foreign currency. *Source: SC, The Daily*

US Visitors

- **British Columbia's economy benefited from an influx of US visitors during 1998, with 3.4 million Americans making overnight trips to the province, an increase of 10.3%.** The province proved to be a big draw for American travellers, as one in four (23%) US visitors coming to Canada for a stay of at least one night crossed the border through a BC customs port. The 14.9 million overnight visits made by Americans to Canada last year broke the record (13.6 million) set in 1986. However, overnight visits to BC (3.4 million) fell just shy of the 3.5 million-mark reached in that year, when Vancouver hosted Expo '86. *Source: Statistics Canada*

- **For the first time since 1988, the number of Americans visiting Canada surpassed Canadians travelling to the US.** This was not the case in BC, where transborder traffic remained heaviest going from the province to points in the US. Last year, 9.7 million Canadians returned home from the States via BC, while BC was the province of entry for 6.5 million American residents making same-day or overnight trips to Canada. 4.1 million travellers on transborder flights passed through Vancouver International Airport in 1998.

  Source: Statistics Canada& Vancouver Airport Authority data

- **A booming US dollar, and favourable exchange rates for American visitors were key factors in the growth in American tourism.** American overnight visitors to Canada spent an average of $450 per trip in the country last year, 12.5% more than in 1997. They injected $6.7 billion into the Canadian economy. At $450 a visitor, this suggests that spending by American tourists on overnight trips to BC may have reached $1.5 billion last year.

  Source: Statistics Canada & BC STATS estimate

The Nation

- **The Canadian economy continued to expand in March, with real gross domestic product (GDP) increasing 0.3% (seasonally adjusted).** This marked the eighth time in as many months that the Canadian economy has grown. The service sector continued to provide most of the stimulus for economic growth, expanding 0.4% in March. The wholesale trade (+1.3%), accommodation and food (+1.1%), finance and insurance (+1.0%) and business services (+1.0%) industries were all buoyant. Computer service and consulting firms, which have been kept busy by companies preparing for the Y2K problem, provided a boost to the business services industry. In the goods sector, GDP advanced 0.2% after declining at the same rate in February.

  Source: Statistics Canada

highlights, Issue 99-22
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For data originating from Statistics Canada: data sourced to 'Statistics Canada' has been retrieved from CANSIM, the agency's electronic database; otherwise the source is identified as 'SC' plus the publication name or catalogue number.

June 4, 1999

Infoline Report: British Columbia Losing Ground in U.S. Lumber Market

Contact: George Dufour / (250) 387-0376

Originally published in February 1999 issue of *Exports*. Annual subscription: $60 + GST

The value of British Columbia's lumber exports to the United States dropped sharply in 1998, adding to difficulties already confronting the forest industry from the collapse of Asian markets.

Most of this was the effect of lower lumber prices, with the average value received per unit of British Columbia lumber shipped to the United States dropping 7 per cent.

No other province experienced such a sharp decline in the value of lumber exports to the United States. For some, the value of U.S. bound lumber shipments actually rose.

Softwood Lumber Agreement Restricts Export Volumes

Some of British Columbia's difficulties in the U.S. lumber market have to do with the Canada-U.S.A. Softwood Lumber Agreement which sets restrictions on exports for some provinces.

The current five year Softwood Lumber Agreement became effective April 1, 1996. It allows penalty free shipments from British Columbia, Alberta, Ontario and Quebec up to a combined total of 14.7 billion board feet annually. Shipments beyond that require fees of $US 50 per thousand board feet for the next 650 million board feet, and $US 100 per thousand board feet beyond that. A small increase in fee free exports is permitted when lumber prices are high.

When the Agreement was signed in 1996, approximately 8.370 billion board feet of penalty free exports were allocated to producers in British Columbia, 1.092 billion to Alberta producers, 1.461 billion to Ontario producers, and 3.263 billion to Quebec producers. About 500 million board feet was set aside for transitional problems and for new entrants to the industry.

There is no absolute limit on the amount that can be shipped from provinces covered by the Agreement, only a limit on the amount that can be shipped penalty free. In practice, however, it has rarely been profitable to ship amounts over the penalty free quotas.

Since being implemented, the Agreement has combined with price declines and weak Asian markets to squeeze lumber producers throughout the province. Coastal lumber producers were particularly hard hit.

Individual quotas for penalty free shipments were established on the basis of exports to the United States just prior to the Agreement. All BC producers received less quota than their overall production. However, many coast producers, and some in the interior, had been relying heavily on Asian trade, so their U.S. quota allocations amounted to even less of their overall production. When Asian markets collapsed, many coastal mills were left with little or no scope to shift sales to U.S. markets.

Exports to the United States of Products Covered By the Softwood Lumber Agreement

	1997 ($ millions)	1998 ($ millions)	difference 1997-98 ($ millions)	% change 1997-98
provinces covered by Softwood Lumber Agreement				
BC	5,293	4,829	-464	-8.8%
Alta	638	601	-37	-5.8%
Ont	909	906	-3	-0.3%
Que	1,983	2,015	32	1.6%
provinces NOT covered by Softwood Lumber Agreement				
Sask	185	181	-4	-2.2%
Man	72	86	14	19.4%
atlantic	670	787	117	17.5%
total Canada	9,756	9,412	-344	-3.5%

Notes:

Export figures presented in this table aggregate all products covered by the Softwood Lumber Agreement. This differs from aggregations presented in most BC STATS' releases. For example, cedar siding is included in the Agreement, and is therefore included in the above figures. Elsewhere in BC STATS publications, cedar siding exports are included in 'selected value added wood products', not as softwood lumber.

Figures above are not adjusted for misallocation by province of origin resulting from reload traffic.

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While the export restrictions have affected many BC producers, high cost producers with quota are insulated from competition with lower cost producers in Alberta, Quebec and Ontario. Producers in these provinces can only gain market share by exporting above their fee free allocations and paying associated export fees.

History of Canada–U.S. Lumber Disputes

Canadian - American disagreements over lumber trade are far from new and date back to struggles in the 1820s between Maine and New Brunswick. In the twentieth century, they have been flaring up off and on since the 1930s when the United States imposed a one dollar per thousand board feet duty on lumber from Canada.

Over the past two decades, British Columbia's share of the United States softwood lumber market (measured in terms of volumes) has fluctuated between 14 and 20 per cent. Canada's share, however, has increased, from approximately 27 per cent in 1980 to 34 per cent in 1998. United States lumber interests have responded to this change in market composition by initiating three major countervail trade actions against Canadian exporters over the past 15 years.

- The first trade action ended in May 1983 with the United States Department of Commerce finding that the Canadian timber pricing system did not confer a countervailable subsidy.
- The second trade action ended in December 1986 with the two countries signing a Memorandum of Understanding where Canada agreed to impose a 15 per cent tax on exports of lumber to the United States. The memorandum avoided a final subsidy determination by the Department of Commerce which would have resulted in a duty being collected by the United States on imports of lumber from Canada.
- The third ended in August 1994 with a successful Canadian challenge under the dispute settlement provisions of the Canada - United States Free Trade Agreement. The two countries subsequently agreed to launch a "consultative mechanism" under which forestry issues of mutual concern would be discussed. This led to the United States refunding all of the estimated $800 million in duties collected and withdrawal of a challenge in the United States court regarding the constitutionality of the dispute settlement provisions of the Free Trade Agreement.
- Government and industry representatives engaged in consultations with the United States throughout 1995. The consultations led quickly to negotiations with the prospect of another countervailing duty action if no agreement was reached. An initial agreement-in-principle regarding softwood lumber was announced in February 1996 and the two countries signed the final agreement on May 29, 1996.

In recent Canada-United States lumber trade disputes, American complaints have usually focused on stumpage rates, the fees paid by companies to cut timber on Crown land. American lumber interests argue that timber pricing systems in some Canadian provinces provide subsidies to the lumber industry. In the latest trade action, United States lumber interests argued that stumpage rates and log export controls provide a subsidy to industry in British Columbia. United States officials chose to include log export controls in the trade action despite the existence of similar controls on public lands in the U.S. west.

During discussions leading up to the current Softwood Lumber Agreement, the United States pressed Canada to engage in negotiations on provincial forestry practices (including but not limited to stumpage). British Columbia negotiators proposed a border measure as an alternative and more direct means of curtailing export volumes, thereby addressing United States concerns regarding Canadian market share. This eventually became the basis for the current Agreement. Throughout the process, the primary goal of Canadian negotiators was to secure access to the United States market without the threat of another trade action.

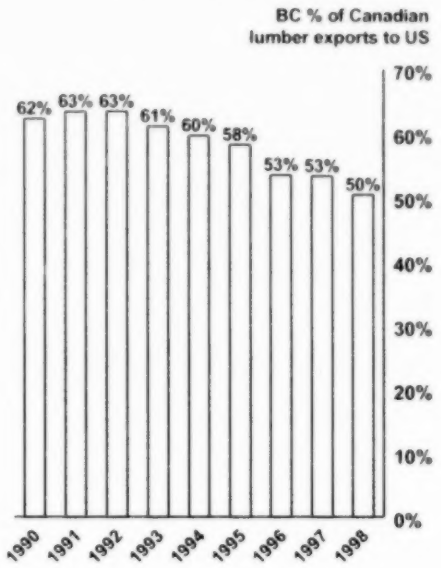
Recent Developments In Product Classifications

Quotas established under the Softwood Lumber Agreement were originally intended to cover only certain specified softwood lumber products. Canadian producers in provinces affected have naturally shifted more of their exports to other types of wood products for which quota limits do not apply. For the most part, this has meant adding more value added content to their product lines.

Recently, the U.S. lumber industry's Coalition For Fair Lumber Imports has argued that some items shipped from Canada to the United States under tariff classifications outside the Agreement are actually the same as products covered by the Agreement, with minor modifications. This led to U.S. Customs reclassifying pre-drilled studs (studs with holes drilled in them for wiring) to a category covered under the Agreement. They have since issued notices for similar changes to be made for notched lumber and rougher headed lumber. Canadian governments and forest companies are opposing these changes on a number of fronts.

These developments are particularly threatening for British Columbia because a key element of the province's strategy for reviving its depressed lumber industry is to focus more on value added wood products.

B.C. Losing U.S. Lumber Market To Other Provinces



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June 4, 1999

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BC at a glance . . .

POPULATION (thousands)	Jan 1/99	% change on one year ago
BC	4,021.4	0.7
Canada	30,418.1	0.9
GDP and INCOME		% change on
(BC - at market prices)	1997	one year ago
Gross Domestic Product (GDP) *($ millions)*	109,347	3.3
GDP *($ 1992 millions)*	98,201	2.2
GDP *($ 1992 per Capita)*	24,775	0.1
Personal Disposable Income *($ 1992 per Capita)*	16,340	-2.3
TRADE ($ millions)		
Manufacturing Shipments (seas. adj.) Mar	2,999	6.4
Merchandise Exports (raw) Mar	2,349	10.6
Retail Sales (seasonally adjusted) Mar	2,748	0.6
CONSUMER PRICE INDEX		% change on
(all items - 1992=100)	Apr '99	one year ago
BC	111.0	1.1
Canada	110.1	1.7
LABOUR FORCE (thousands)		% change on
(seasonally adjusted)	May '99	one year ago
Labour Force - BC	2,062	0.7
Employed - BC	1,889	1.9
Unemployed - BC	174	-10.9
		May '98
Unemployment Rate - BC *(percent)*	8.4	9.5
Unemployment Rate - Canada *(percent)*	8.1	8.4
INTEREST RATES (percent)	June 2/99	June 3/98
Prime Business Rate	6.25	6.50
Conventional Mortgages - 1 year	6.60	6.55
- 5 year	7.40	6.95
US/CANADA EXCHANGE RATE	June 2/99	June 3/98
(avg. noon spot rate) Cdn $	1.4801	1.4530
US $ *(reciprocal of the closing rate)*	0.6757	0.6881
AVERAGE WEEKLY EARNINGS		% change on
(industrial aggregate - dollars)	Mar '99	one year ago
BC	619.13	1.1
Canada	605.14	-0.1

SOURCES:

Population, Gross Domestic Product, Trade, Prices, Labour Force, Earnings } Statistics Canada

Interest Rates, Exchange Rates: Bank of Canada Weekly Financial Statistics

For latest Weekly Financial Statistics see www.bank-banque-canada.ca/english/wfsgen.htm

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